



REVIEW OF FINANCIAL SCHEDULES

Liberty Utilities (Park Water) Corporation-Central Basin Division

For the Year Ended December 31, 2020

Utility Audits, Risk and Compliance Division
Utility Audits Branch
August 8, 2022



MEMBERS OF THE TEAM

Angie Williams, Director

Masha Vorobyova, Assistant Director

**Raymond Yin, CPA
Program and Project Supervisor**

**Khusbindar Kaur, CPA
Lead**

**Judith Mason
Staff**

A digital copy of this report can be found at:
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You can contact our office at:
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Utility Audits, Risk and Compliance Division
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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



Transmitted via e-mail

August 8, 2022

Mr. Edward Jackson
President – California Region
Liberty Utilities (Park Water) Corporation
9750 Washburn Road
Downey, CA 90241

Dear Mr. Jackson:

**Final Report Transmittal Letter—Review of Liberty Utility (Park Water) Corporation—
Central Basin Division’s Annual Report for the Year Ended December 31, 2020**

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) has completed its review of Liberty Utilities (Park Water) Corporation (LUPWC)—Central Basin Division’s 2020 Annual Report filed with the CPUC. The final review report is enclosed.

LUPWC’s response to the draft report and our evaluation of the response are incorporated into this final report. We will post the final review report on our website at [Audit Reports by Industry \(ca.gov\)](https://www.cpuc.ca.gov/Audit-Reports-by-Industry).

Please provide a Corrective Action Plan (CAP) addressing the finding and recommendation by September 22, 2022. The CAP should include specific steps and target dates to correct the finding identified. Please submit the CAP to the Utility Audits Branch at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov.

We appreciate LUPWC’s assistance and cooperation during the engagement, and your willingness to implement corrective actions.

Please contact us at UtilityAudits@cpuc.ca.gov if you have any questions.

Sincerely,

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

cc: on next page

Mr. Edward Jackson
President – California Region
Liberty Utilities (Park Water) Corporation
August 8, 2022
Page 2

cc: Crystal Greene, Vice President, Finance, LUPWC
Manasa Rao, Director, Rates and Regulatory Affairs, LUPWC
Dan Marsh, Senior Manager, Rates and Regulatory Affairs, LUPWC
Joy Duenas, Manager, Finance, LUPWC
Tiffany Thong, Manager, Rates and Regulatory Affairs, LUPWC
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TABLE OF CONTENTS

EXECUTIVE SUMMARY..... 1

INDEPENDENT ACCOUNTANT’S REVIEW REPORT..... 3

REVIEWED FINANCIAL SCHEDULES..... 5

 Utility Plant in Service 5

 Operating Revenues 8

 Operating Expenses 9

 Notes to Financial Schedules..... 12

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS 14

APPENDIX B—UTILITY’S RESPONSE 19

APPENDIX C—UAB’S EVALUATION OF UTILITY’S RESPONSE..... 25

EXECUTIVE SUMMARY

The Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) conducted a review of the financial schedules in the Annual Report of Liberty Utilities (Park Water) Corporation (LUPWC)–Central Basin Division (LUPWC–Central Basin) for the year ended December 31, 2020, pursuant to Public Utilities (PU) Code Sections 314.5, 314.6, 581, 582, and 584 that provide the CPUC the statutory authority to review or audit the books and records of the regulated utilities. We conducted this review in accordance with the standards prescribed under Review Engagements in the Generally Accepted Government Auditing Standards (GAGAS).

Incorporated in California in 1937, LUPWC is a wholly owned subsidiary of Western Water Holdings, LLC, a holding company. Western Water Holdings, LLC, is a wholly owned subsidiary of Liberty Utilities Company. LUPWC is a Class A water utility, which serves a total of 28,085 metered customer connections, 200 private and 2,018 public fire hydrant service connections through its Central Basin Division.¹ LUPWC–Central Basin serves customers in portions of Los Angeles County in California.² As a regulated water utility, LUPWC is required to prepare its Divisions' Annual Reports on accrual basis of accounting set forth in the Uniform System of Accounts (USOA) adopted in Decision (D.) 16-11-006 by the CPUC on November 16, 2016, which is a comprehensive basis of accounting other than the generally accepted accounting principles in the United States of America.

The purpose of this review was to obtain limited assurance as a basis for reporting whether we were aware of any material modifications that should be made to the financial schedules in LUPWC–Central Basin's Annual Report for the year ended December 31, 2020, in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives, including CPUC Water Division's Annual Report filing requirements.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial schedules in LUPWC–Central Basin's revised Annual Report in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC's directives. However, UAB identified two material misstatements in LUPWC–Central Basin's Annual Report originally filed with the CPUC's Water Division, as described in the Appendix A–Review Findings and Recommendations. The findings are summarized below:

- Finding 1: LUPWC incorrectly recorded and reported the surcharges and surcredits related to its balancing accounts including California Alternative Rates for Water (CARW) Balancing Account and Water Revenue Adjustment Mechanism (WRAM)/ Modified Cost Balancing Account (MCBA). In the aggregate, LUPWC overstated Account 601-1.1–Metered Residential Sales and Account 614–Other Water Revenues by \$2,213,889 and \$2,510,335, respectively; and understated Account 601-1.2–Metered Residential Low-Income Discount (Debit), Account 810–Customer Surcredits and Account 610–Customer Surcharges by \$1,264,001, \$967,555, and \$6,955,780, respectively.
- Finding 2: LUPWC incorrectly reported a balance of \$449,170 in Account 9XX–Miscellaneous-Clearing in LUPWC–Central Basin's 2020 Annual Report. Account 9XX in LUPWC's Annual Report rolls up the balances from USOA Accounts 902, 903, and 906,

¹ LUPWC-Central Basin Division 2020 Annual Report, Schedule D-4–Number of Active Service Connections, Page 16.

² LUPWC 2020 Annual Report, General Information, Page 13.

which are temporary clearing accounts. The balances in these clearing accounts should have been transferred to Account 805–Maintenance of General Plant. As a result, LUPWC overstated Account 9XX–Miscellaneous-Clearings by \$449,170 and understated Account 805–Maintenance of General Plant by the same amount.

UAB discussed the findings and recommendations with LUPWC during fieldwork. LUPWC concurred with the findings and agreed to correct the misstatements identified above. LUPWC submitted its revised 2020 Annual Report for LUPWC–Central Basin on June 22, 2022, to the CPUC to correct the material misstatement described in Appendix A of this report. UAB further discussed these findings with LUPWC at the exit conference on June 28, 2020, and LUPWC concurred with the review results. We are not aware of any material modifications that should be made to the accompanying financial schedules in LUPWC–Central Basin Division’s revised Annual Report.

UAB provided a draft review report to LUPWC for comments on July 11, 2022. LUPWC submitted its comments on July 25, 2022, requesting specific modifications to certain language in Findings 1 and 2 of UAB’s draft review report. LUPWC also requested removing the requirement presented in the Other Matter paragraph of the draft review report regarding submitting a revised 2021 Annual Report to the CPUC. LUPWC’s response is included in Appendix B of this report. UAB’s evaluation of LUPWC’s response is in Appendix C of this report. The review findings and recommendations presented in this report remain unchanged and represent our final determination of this review engagement.

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

Mr. Edward Jackson
President – California Region
Liberty Utilities (Park Water) Corporation
9750 Washburn Road
Downey, CA 90241

The Utility Audits Branch (UAB) of the California Public Utility Commission (CPUC) has reviewed the accompanying financial schedules in Liberty Utilities (Park Water) Corporation (LUPWC)–Central Basin Division’s (LUPWC–Central Basin) revised Annual Report for the year ended December 31, 2020. LUPWC management is responsible for the preparation and fair presentation of the financial schedules in LUPWC–Central Basin’s revised Annual Report in accordance with the accounting framework prescribed by the Uniform System of Accounts (USOA) adopted in CPUC’s Decision (D.)16-11-006 and CPUC’s directives, including Water Division’s Annual Report filing requirements. Our responsibility is to express a conclusion on the financial schedules in the LUPWC-Central Basin’s revised Annual Report based on our review.

Our review was conducted in accordance with the standards of attestation engagement established by the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the review to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial schedules in LUPWC–Central Basin’s Annual Report in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC’s directives. A review is substantially less in scope than an examination, the objective for which is to obtain reasonable assurance about whether the financial schedules in LUPWC–Central Basin’s Annual Report are in accordance with accounting framework prescribed by the USOA and CPUC’s directives, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

We are required to be independent of LUPWC and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our reviews.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial schedules in LUPWC–Central Basin’s revised Annual Report for the year ended December 31, 2020, in order for them to be in accordance with the accounting framework prescribed by the USOA and CPUC’s directives. However, UAB identified two material misstatements in LUPWC–Central Basin’s Annual Report originally filed with the CPUC’s Water Division, as described in the Appendix A–Review Findings and Recommendations. These misstatements have been corrected in the accompanying financial schedules.

Views of Responsible Official

UAB discussed the review findings and recommendations with LUPWC during fieldwork. LUPWC concurred with the findings and agreed to correct the misstatements in LUPWC–Central Basin’s Annual Report originally filed with the Water Division. LUPWC submitted its revised Annual Report for LUPWC–Central Basin on June 22, 2022, to the CPUC to correct the material misstatements described in Appendix A of this report. UAB further discussed these findings with LUPWC at the exit conference on June 28, 2022, and LUPWC agreed with the review results. UAB

provided a draft review report to LUPWC for comments on July 11, 2022. LUPWC submitted its comments on July 25, 2022, requesting specific modifications to certain language in the Findings 1 and 2 of UAB's draft review report. LUPWC also requested removing the requirement presented in the Other Matter paragraph of the draft review report regarding submitting a revised 2021 Annual Report to the CPUC. LUPWC's response is included in Appendix B of this report. UAB's evaluation of LUPWC's response is in Appendix C of this report. The review findings and recommendations presented in this report remain unchanged and represent our final determination of this review engagement.

Other Matter - Submission of a Corrective Action Plan

LUPWC-Central Basin Division's management should submit a corrective action plan (CAP) to the UAB at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry@cpuc.ca.gov by September 22, 2022. The CAP should address how LUPWC will implement the recommendations. If LUPWC-Central Basin Division is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations.

Restricted Use of This Review Report

The purpose of this report is to summarize the results of the review mandated by PU Code Section 314.5. Accordingly, this review report is intended solely for the information and use by the CPUC and the management of LUPWC, and it is not suitable for any other purpose. It is not intended to be used and should not be used by anyone other than the specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record and will be available on the CPUC website at [Audit Reports by Industry \(ca.gov\)](http://www.cpuc.ca.gov/AuditReportsbyIndustry).

Angie Williams

Angie Williams, Director
Utility Audits, Risk and Compliance Division

Sacramento, California
August 8, 2022

REVIEWED FINANCIAL SCHEDULES

Liberty Utilities (Park Water) Corporation-Central Basin Division Utility Plant in Service As of December 31, 2020

INTANGIBLE PLANT

Organization	\$5,517
Franchises and Consents	23,376
Other Intangible Plant	9,294
Total Intangible Plant	<u>38,187</u>

LANDED CAPITAL

Land and Land Rights	18,743,699
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SOURCE OF SUPPLY PLANT

Wells	2,685,202
Other Source of Supply Plant	1,954,146
Total Source of Supply Plant	<u>4,639,348</u>

PUMPING PLANT

Structures and Improvements	5,056,417
Pumping Equipment	4,835,978
Other Pumping Plant	2,726,688
Total Pumping Plant	<u>12,619,083</u>

WATER TREATMENT PLANT

Water Treatment Equipment	4,560,875
Total Water Treatment Plant	<u>4,560,875</u>

TRANSMISSION AND DISTRIBUTION PLANT

Reservoirs and Tanks	6,801,427
Transmission and Distribution Mains	51,338,783
Services	17,985,992
Meters	7,495,707
Hydrants	9,207,464
Total Transmission and Distribution Plant	<u>92,829,373</u>

(Continued on next page)

Liberty Utilities (Park Water) Corporation-Central Basin Division
Utility Plant in Service (Continued)
 As of December 31, 2020

GENERAL PLANT

Structures and Improvements	\$12,879,834
Office Furniture and Equipment	2,335,434
Transportation Equipment	1,675,574
Stores Equipment	68,419
Laboratory Equipment	3,106
Communication Equipment	4,956,081
Power Operated Equipment	931,121
Tools, Shop and Garage Equipment	514,179
Total General Plant	23,363,748

UNDISTRIBUTED ITEM

Other Tangible Property	416,012
Total Undistributed Item	416,012

Total Utility Plant in Service**\$157,210,325****RECYCLED WATER UTILITY PLANT**

Recycled Water Depreciable Plant	\$75,178
Total Recycled Water Utility Plant	\$75,178

(See independent accountant's review report and accompanying notes.)

Liberty Utilities (Park Water) Corporation-Central Basin Division
Depreciation and Amortization Reserves
As of December 31, 2020

	Utility Plant	Limited-Term Utility Investments	Recycled Water Utility Plant
Reserves, Beginning of Year	\$27,665,635	\$21,842	\$0
Credits			
Charged to Account 503	3,092,979		1,969
Charged to Account 504		1,535	
Charged to Account 265	325,070		
Charged to clearing accounts	148,697		
Salvage recovered	3,474		
Main office depreciation allocation	(177,278)		
All other credits	216,640		40,841
Total credits	<u>3,609,582</u>	<u>1,535</u>	<u>42,810</u>
Debits			
Book cost of property retired	(571,984)		
Cost of removal	(1,253,119)		
All other debits	(40,841)		
Total debits	<u>(1,865,944)</u>	<u>0</u>	<u>0</u>
Reserve, End of Year	<u><u>\$29,409,273</u></u>	<u><u>\$23,377</u></u>	<u><u>\$42,810</u></u>

(See independent accountant's review report and accompanying notes.)

Liberty Utilities (Park Water) Corporation-Central Basin Division
Operating Revenues
 For Year Ended December 31, 2020

WATER SERVICE REVENUES

Metered Sales to General Customers	
Residential Sales	\$24,854,055
Residential Low-Income Discount (Debit)	(967,555)
Commercial Sales	7,338,637
Industrial Sales	211,726
Sales to Public Authorities	1,644,675
Sub-total	33,081,538
Private Fire Protection Service	215,043
Sales to Other Water Utilities for Resale	302,268
Sub-total	517,311
Total Water Service Revenues	33,598,849

OTHER WATER REVENUES

Customer Surcharges	3,477,891
Miscellaneous Service Revenues	104,086
Other Water Revenues	2,856,507
Recycled Water Revenues	637,403
Total Other Water Revenues	7,075,887
TOTAL OPERATING REVENUES	\$40,674,736

(See independent accountant's review report and accompanying notes.)

Liberty Utilities (Park Water) Corporation-Central Basin Division
Operating Expenses
 For Year Ended December 31, 2020

SOURCE OF SUPPLY EXPENSE

Operation	
Operation labor and expenses	\$229,619
Miscellaneous expenses	2,964,071
Purchased water	7,228,953
Maintenance	
Maintenance supervision and engineering	82
Maintenance of structures and improvements	96
Maintenance of wells	275
Maintenance of other source of supply plant	82,100
Total Source of Supply Expense	<u>10,505,195</u>

PUMPING EXPENSES

Operation	
Pumping labor and expenses	582,903
Miscellaneous expenses	70,734
Fuel or power purchased for pumping	731,782
Maintenance	
Maintenance of structures and improvements	83,776
Maintenance of power production equipment	274
Maintenance of power pumping equipment	136,133
Total Pumping Expenses	<u>1,605,602</u>

WATER TREATMENT EXPENSES

Operation	
Operation labor and expenses	200,138
Miscellaneous expenses	8,535
Chemicals and filtering materials	125,806
Maintenance	
Maintenance of water treatment equipment	42,086
Total Water Treatment Expenses	<u>376,565</u>

(Continued on next page)

Liberty Utilities (Park Water) Corporation-Central Basin Division
Operating Expenses (Continued)
 For Year Ended December 31, 2020

TRANSMISSION AND DISTRIBUTION EXPENSES

Operation

Operation supervision and engineering	\$71,693
Transmission and distribution lines expenses	219,382
Meter expenses	22,520
Customer installations expenses	127,146
Miscellaneous expenses	26,990

Maintenance

Maintenance supervision and engineering	15,043
Maintenance of structures and improvements	830
Maintenance of reservoirs and tanks	85,174
Maintenance of transmission and distribution mains	271,550
Maintenance of services	123,948
Maintenance of meters	11,960
Maintenance of hydrants	41,445
Maintenance of miscellaneous plant	2,792

Total Transmission and Distribution Expenses	1,020,473
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CUSTOMER ACCOUNT EXPENSES

Operation

Meter reading expenses	302,833
Customer records and collection expenses	786,494
Miscellaneous customer accounts expenses	12,414
Uncollectible accounts	404,493

Total Customer Account Expenses	1,506,234
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SALES EXPENSES

Operation

Demonstrating selling expenses	266,342
Total Sales Expenses	266,342

RECYCLED WATER EXPENSES

Operation and Maintenance

Recycled water operation and maintenance expenses	191,602
Total Sales Expenses	191,602

(Continued on next page)

Liberty Utilities (Park Water) Corporation-Central Basin Division
Operating Expenses (Continued)
 For Year Ended December 31, 2020

ADMINISTRATIVE AND GENERAL EXPENSES

Operation

Administrative and general salaries	\$1,354,260
Office supplies and other expenses	539,175
Property insurance	1,055
Injuries and damages	407,201
Employees' pensions and benefits	2,463,451
Franchise requirements	156,644
Regulatory commission expenses	125,910
Outside services employed	183,137
Miscellaneous general expenses	2,843,690
Main Office Allocation	2,330,740

Maintenance

Maintenance of general plant	599,766
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Total Administrative and General Expenses

11,005,029

MISCELLANEOUS

Rents	7,000
Administrative expenses transferred – Credit	(1,444,399)

Total Miscellaneous

(1,437,399)

TOTAL OPERATING EXPENSES

\$25,039,644

(See independent accountant's review report and accompanying notes.)

Liberty Utilities (Park Water) Corporation-Central Basin Division

Notes to Financial Schedules

Incorporated in California in 1937, LUPWC is a wholly owned subsidiary of Western Water Holdings, LLC, a holding company. Western Water Holdings, LLC, is a wholly owned subsidiary of Liberty Utilities Company. LUPWC is a Class A water utility, which serves a total of 28,085 metered customers connections, 200 private and 2,018 public fire hydrants service connections through its Central Basin Division.³ LUPWC-Central Basin serves customers in portions of Los Angeles County in California.⁴

Regulated water utilities are required to prepare their financial statements on accrual basis of accounting set forth in the USOA for Water Utilities adopted in Decision (D.)16-11-006 by the CPUC on November 16, 2016, which is a comprehensive basis of accounting other than the generally accepted accounting principles (GAAP) in the United States of America. The followings describe certain differences in accounting treatments between GAAP and USOA, the company's current accounting practices, and its compliance with applicable regulation and CPUC directives.

1. Purpose of Financial Information and Targeted Audience

The objective of preparing financial information in accordance with GAAP is to provide information that is useful in making decisions about providing resources to the entity. Users of the financial information include existing and potential investors, lenders, and other creditors.

The purpose of using USOA to prepare financial schedules is to have the utilities provide financial transparency of their water operations on a consistent basis. The primary user of the financial information is the CPUC for ratemaking and other compliance purposes.

2. Property, Plant and Equipment

The USOA distinguishes the plant assets for water operations (e.g., Account 100-1, Utility Plant in Service) from those for non-water operations (e.g., Account 110, Other Physical Property), for ratemaking purposes. The cost of additions, replacements and betterments to utility plant is capitalized.

(1) Depreciation Methodology

GAAP allows entities to elect a depreciation methodology of their choices, such as straight-line, double-declining balance, or sum-of-the-years digits depreciation method.

USOA requires utilities to use "Straight-line remaining life method." "Remaining life" implies that estimates of future life and salvage value will be re-evaluated periodically and that depreciation rates will be adjusted to reflect any changes in estimates. Class A water utilities are required to comply with the USOA and CPUC's Standard Practice (SP) U-4-W when determining depreciation accruals. Specifically, depreciation reserve is determined for each primary plant account by dividing the original cost of depreciable utility plant, net of estimated salvage value and depreciation reserve, by the estimated remaining life of the surviving plant of

³ LUPWC-Central Basin Division 2020 Annual Report, Schedule D-4-Number of Active Service Connections, Page 16.

⁴ LUPWC 2020 Annual Report, General Information, Page 13.

the account. The utility must obtain prior written approval from the CPUC for any practice deviates from the aforementioned guidelines.

LUPWC–Central Basin uses the estimated straight-line remaining life depreciation method for each class of utility plant. LUPWC–Central Basin utilities depreciation methodology approved by the CPUC’s D.19-05-029.

(2) Asset Retirement

USOA requires that water plant be recorded at original cost. In USOA’s depreciation schedule, the difference between the estimated cost of removal and the salvage value is included in the depreciable base to obtain the annual depreciation expense. When retiring an asset, the cost of removal will reduce the balance of Account 250, Reserve for Depreciation of Utility Plant, while the cash received from the salvage value or sale price will increase the balance of Account 250, Reserve for Depreciation of Utility Plant. The gain or loss from the asset retirement that is recognized under GAAP is accumulated in Account 250, Reserve for Depreciation of Utility Plant under the USOA.

LUPWC–Central Basin retired \$571,984 of assets during 2020, which primarily consisted of Transmission and Distribution, and General Plant.⁵

3. Operating Revenues

LUPWC–Central Basin generated about 81 percent of its revenue from metered water sales, 17 percent from other water revenues, and two percent from Fire Protection Services and Sales to Other Water Utilities for Resale.

4. Water Utility Users Fee

PU Code, Sections 401 through 410 authorized the CPUC to set a fee annually to water utilities to cover the costs incurred by the CPUC in regulating them. A percentage of gross revenues is added to customer bills and paid by the water utilities to the CPUC. Class A water utilities pay a percentage of gross revenues quarterly.

LUPWC–Central Basin recorded CPUC Users Fee as a pass-through activity and remitted the Users Fee to the CPUC on a quarterly basis.

5. Compliance filing of 2020 Annual Report with the CPUC

PU Code, Sections 581, 582, and 584, and the CPUC’s directive (i.e., Water Division’s annual memorandum to water and sewer utilities) require all regulated water utilities to file an Annual Report with the CPUC every year. For the year being reviewed, LUPWC–Central Basin has complied with these requirements.

⁵ LUPWC-Central Basin Division 2020 Annual Report, Schedule A-1a–Utility Plant in Service, Page 5.

APPENDIX A—REVIEW FINDINGS AND RECOMMENDATIONS

Finding 1: Incorrect Recording and Reporting of Surcharges and Surcredits

Condition:

LUPWC incorrectly recorded and reported the surcharges and surcredits related to its balancing accounts including California Alternative Rates for Water (CARW) Balancing Account and Water Revenue Adjustment Mechanism (WRAM)/ Modified Cost Balancing Account (MCBA). In the aggregate, LUPWC overstated Account 601-1.1—Metered Residential Sales and Account 614—Other Water Revenues by \$2,213,889 and \$2,510,335, respectively; and understated Account 601-1.2—Metered Residential Low-Income Discount (Debit), Account 810—Customer Surcredits and Account 610—Customer Surcharges by \$1,264,001, \$967,555, and \$6,955,780, respectively. The identified recording and reporting errors relating to its customer surcharges and surcredits are described below:

- LUPWC incorrectly recorded \$2,213,889 of total surcharges billed to its customers for WRAM/MCBA in Account 601-1.1—Metered Residential Sales and \$1,264,001 of surcharges billed to its customers for the CARW program in Account 601.1-2—Residential Low-Income Discount (Debit), instead of recording and reporting the surcharges for both programs in Account 610—Customer Surcharge. As a result, LUPWC misstated the following accounts:

Account	Overstated/ (Understated)
601-1.1—Metered Residential Sales	\$2,213,889
601-1.2—Metered Residential Low-Income Discount (Debit)	(1,264,001)
610 - Customer Surcharges	(3,477,890)

- LUPWC incorrectly recorded offset entries to transfer account balances to its balancing account by debiting \$3,477,890 (surcharges of \$2,213,889 for WRAM/MCBA and \$1,264,001 for CARW program) in Account 610—Customer Surcharges, instead of Account 614—Other Water Revenues. As a result, LUPWC misstated the following accounts:

Account	Overstated/ (Understated)
614—Other Water Revenues	\$3,477,890
610—Customer Surcharges	(3,477,890)

- LUPWC incorrectly recorded offset entries to transfer account balances to its CARW balancing account by crediting \$967,555 to Account 810—Surcredits, instead of Account 614—Other Water Revenues. As a result, LUPWC misstated the following accounts:

Account	Overstated/ (Understated)
810—Customer Surcredits	\$(967,555)

614—Other Water Revenues

(967,555)

UAB proposed, and LUPWC agreed and incorporated, the following adjusting entries to correct the misstatements identified above:

Adj Number	Account Number	Description	DR	CR
1	601-1.1	Metered Residential Sales	\$2,213,889	
	601-1.2	Metered Residential Low-Income Discount (Debit)	1,264,001	
	810	Customer Surcredits	967,555	
	614	Other Water Revenues	2,510,335	
	610	Customer Surcharges		\$6,955,780
		<i>To correct CARW customer surcharge, Residential sales, Residential Low-Income discount, and Surcredits account balances at end of the year.</i>		

LUPWC applied these adjusting journal entries to correct its books and submitted a revised Annual Report to the CPUC on June 22, 2022.

Criteria:

USOA states in part, that:

601. Metered Sales to General Customers

A. This account shall include all billings for measured water supplied for residential, commercial and industrial purposes and also to public authorities where the total charge is, or may be, in any way dependent on the quantity of water delivered through measuring devices. Records shall be maintained so that the quantity of water sold and the amount of revenue under each rate schedule shall be readily available.

B. This account shall be divided into subaccounts as follows:

601-1.1 Residential Sales

601-1.2 Residential Low-Income Discount (Debit)

Subaccount 601-1.2 shall be used to record low-income discounts given to metered residential customers unless otherwise authorized or ordered by the Commission.

610. Customer Surcharges

This account shall be credited with all surcharges billed to customers that are approved by the Commission unless otherwise authorized or directed by the Commission.

614. Other Water Revenues

This account shall include revenues derived from water operations not includible in any of the foregoing accounts.

Items

1. Commissions on sales or distribution of water of others when sold under rates filed by such others.
2. Minor or incidental management or supervision fees charged to others.

3. Profit or loss on sale of material and supplies not ordinarily purchased for resale.
4. Sale of steam, but not including sales made by a steam heating department or transfers of steam under joint facility operations.

810. Customer Surcredits

This account shall be charged with all customer surcredits that are approved by the Commission unless otherwise authorized or directed by the Commission.

Cause:

LUPWC lacks adequate oversight and an effective review process to ensure that the transactions relating to its balancing accounts are accurately recorded and reported in the Annual Report.

Effect:

Inaccurate reporting of surcharges and surcredits could potentially impact water rates for LUPWC–Central Basin Division’s ratepayers during LUPWC General Rate Case application review process if they were left uncorrected.

Recommendation:

LUPWC should strengthen its oversight and review process over its accounting and regulatory reporting to ensure that transactions relating to its balancing accounts are accurately recorded and reported.

Finding 2: Incorrect Reporting of Miscellaneous Clearing Accounts

Condition:

LUPWC incorrectly reported a balance of \$449,170 in Account 9XX–Miscellaneous-Clearing in LUPWC–Central Basin’s 2020 Annual Report originally filed with the CPUC’s Water Division on June 2, 2021. Account 9XX in LUPWC’s Annual Report rolls up the balances from USOA Accounts 902, 903, and 906, which are temporary clearing accounts. The balances in these clearing accounts should have been transferred to Account 805–Maintenance of General Plant. As a result, LUPWC overstated Account 9XX–Miscellaneous-Clearings by \$449,170 and understated Account 805–Maintenance of General Plant by the same amount.

UAB proposed, and LUPWC agreed and incorporated, the following adjusting entry to correct the misstatement identified above:

Adj. Number	Account Number	Description	DR	CR
2	805	Maintenance of General Plant	\$449,170	
	9XX	Miscellaneous-Clearings		\$449,170
		<i>To reclassify miscellaneous clearings to maintenance expense.</i>		

LUPWC applied this adjusting journal entry to correct its books and submitted a revised Annual Report to the CPUC on June 22, 2022.

Criteria:

The USOA in D.16-11-006 establishes Accounts 901 to 906 for utilities to record temporary expenses and requires these accounts be substantially cleared by transferring the expenses in the

temporary accounts to operating expenses, or other appropriate accounts, on a basis that will distribute the expenses equitably no later than the end of the calendar year. Specifically, the USOA states, in part, that:

143. Clearing Accounts

This caption shall include undistributed balances in clearing accounts (see Accounts 901 to 906) at the date of the balance sheet. Balances in clearing accounts shall be substantially cleared not later than the end of the calendar year unless items held therein relate to a future period.

902. Stores Expenses—Clearing

A. This account shall include all the cost of supervision, labor and expenses incurred in the operation and maintenance of the general storerooms, including purchasing, storage handling and distribution of materials and supplies.

B. Cash discounts shall be credited hereto when such discounts cannot be applied to the cost of particular materials.

C. The account shall be cleared by adding to the cost of materials and supplies a suitable loading charge which will distribute the expenses equitable over stores issues.

903. Transportation Expenses—Clearing

A. This account shall include the cost of supervision, labor and expenses incurred in the operation and maintenance of the general transportation equipment of the utility including direct taxes and depreciation on transportation equipment.

B. This account shall be cleared by apportionment to operating expenses, utility plant or other accounts on a basis which will distribute the expenses equitably. Credits to this account shall be made in such details as to permit ready analysis thereof.

906. Tools and Work Equipment—Clearing (The use of this account is optional)

A. This account shall include the cost of supervision, labor and expenses incurred in the operation and maintenance of the general tools and work equipment of the utility including direct taxes and depreciation on such equipment.

B. This account shall be cleared by an apportionment to operating expenses, utility plant, or other appropriate accounts on a basis which will distribute the expenses equitably according to the use of the equipment. Credits to this account shall be made in such detail as to permit ready analysis thereof.

Note – The use of this account is optional. If not used, maintenance of the equipment, to the extent applicable to operating expenses, shall be charged to Account 805.

Cause:

LUPWC lacks adequate monitoring procedures over its accounting and reporting process to ensure that necessary adjusting entries are recorded to transfer any balances in its clearing accounts to other appropriate accounts at year end.

Effect:

LUPWC did not comply with accounting and reporting requirements required by the USOA regarding clearing the balances recorded in temporary accounts. As a result, the ending balances for Account 900s and 805 were not accurately stated. Inaccurate reporting of these account balances in LUPWC-Central Division's 2020 Annual Report reduced the comparability of the operating expense data among Class A water utilities.

Recommendation:

LUPWC should strengthen its monitoring procedures over its accounting and reporting process to ensure that necessary adjusting entries are recorded to transfer any balances in its clearing accounts to other appropriate accounts at year end.

APPENDIX B—UTILITY'S RESPONSE



Liberty Utilities (Park Water) Corp.
9750 Washburn Road
Downey, CA 90241-7002
Tel: 562-923-0711
Fax: 562-861-5902

Transmitted via e-mail

July 25, 2022

Angie Williams, Director
California Public Utilities Commission
Utility Audits, Risk and Compliance Division
400 R Street, Suite 221
Sacramento, CA 95811

Re: Liberty Utilities (Park Water) Corp. Response to the Draft Review Report for Liberty Utilities (Park Water) Corp. – Central Basin Division’s Annual Report for the year ended December 31, 2020

Dear Director Williams:

Liberty Utilities (Park Water) Corp. (Liberty) hereby submits its response to the Draft Report issued on July 11, 2022 by the Utility Audits Branch (UAB) of the California Public Utilities Commission (CPUC) regarding the Annual Report Review for the year ended December 31, 2020 (Draft Report).

Liberty appreciates the UAB’s review and ongoing engagement throughout the process. Liberty has implemented measures consistent with the UAB’s recommendation but requests edits to the language in the Draft Report to clarify the nature of Findings 1 and 2 (as illustrated in redline and strikethrough along with Liberty’s Response below).

Liberty
Response to UAB Draft Review Report

July 25, 2022
Page 2

Executive Summary

Finding 1: LUPWC incorrectly ~~recorded and~~ reported the surcharges and surcredits in the CPUC Annual Report related to its balancing accounts including California Alternative Rates for Water (CARW) Balancing Account and Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA). In the aggregate, LUPWC overstated Account 601-1.1 Metered Residential Sales and Account 614-Other Water Revenues by \$2,213,889 and \$2,510,335, respectively, and understated Account 601-1.2-Metered Residential Low-Income Discount (Debit); ~~and Account 810-Customer Surcredits and Account 610-Customer Surcharges~~ by \$1,264,001, \$967,555, respectively. ~~As a result, and Account 610-Customer Surcharges was understated by \$6,955,780, respectively.~~

Liberty's Response:

Liberty clarifies that the misstatement in each of the above accounts only apply to the CPUC Annual Report. In general, revenues, including surcharges and surcredits, are correctly recorded and reflected in Liberty's financial system and operating statements. The changes presented in this report are simply to recategorize the surcharges and surcredits to the appropriate Uniform Systems of Accounts (USOA) in the CPUC Annual Report and do not impact Liberty's net operating income, balances recorded in the CARW and WRAM/MCBA balancing accounts, or the General Rate Case application. The misstatements were primarily due to incorrect USOA assigned to Liberty's general ledger (GL) transaction details for surcharges and surcredits as the USOA classification is used to extract information from the GL to populate the CPUC Annual Report. The USOA for the surcharges and surcredits have been corrected in Liberty's GL for future reporting.

Other Matter – Submission of a Corrective Action Plan

LUPWC-Central Basin Division's management should submit a corrective action plan (CAP) to the UA at UtilityAudits@cpuc.ca.gov, with a copy to Bruce DeBerry, Program Manager of Water Division, at Bruce.DeBerry.cpuc.ca.gov within 45 calendar days following the issuance of the final review report. The CAP should address how LUPWC will implement the recommendations. If LUPWC-Central Basin Division is unable to implement UAB's recommendations, the CAP should state the reason(s) for not being able to implement any of the recommendations. ~~LUPWC-Central Basin Division should use the amounts reviewed by the UAB as presented in this report as the basis to file a revised 2021 Annual Report with the CPUC.~~

Liberty's Response:

Liberty's 2021 Annual Reports filed with the CPUC on June 21, 2022 already reflect the changes as presented in this report. As such, Liberty recommends removing the requirement for Liberty to file a revised 2021 Annual Report with the CPUC.

Appendix A—Review Findings and Recommendations

Finding 1: Incorrect ~~Recording and~~ Reporting of Surcharges and Surcredits

Conditions:

LUPWC incorrectly ~~recorded and~~ reported the surcharges and surcredits in the CPUC Annual Report related to its balancing accounts including California Alternative Rates for Water (CARW) Balancing Account and Water Revenue Adjustment Mechanism (WRAM)/Modified Cost Balancing Account (MCBA). In the aggregate, LUPWC overstated Account 601-1.1—Metered Residential Sales and Account 614—Other Water Revenues by \$2,213,889 and \$2,510,335, respectively, and understated Account 601-1.2—Metered Residential Low-Income Discount (Debit), and Account 810—Customer Surcredits, ~~and Account 610—Customer Surcharges~~ by \$1,264,001, and \$967,555 respectively. As such, Account 610-Customer Surcharges was understated by, ~~and~~ \$6,955,780, respectively. The identified ~~recording and~~ reporting errors relating to its customer surcharges and surcredits are described below:

- LUPWC incorrectly ~~recorded~~ reported \$2,213,889 of total surcharges billed to its customers for WRAM/MCBA in Account 601-1.1—Metered Residential Sales and \$1,264,001 of surcharges billed to its customers for the CARW program in Account 601.1-2—Residential Low-Income Discount (Debit), instead of ~~recording and~~ reporting the surcharges for both programs in Account 610—Customer Surcharge. As a result, LUPWC misstated the following accounts:

Account	Overstated/(Understated)
601-1.1—Metered Residential Sales	\$2,213,889
601-1.2—Metered Residential Low-Income Discount (Debit)	(1,264,001)
610 – Customer Surcharges	(3,477,890)

- LUPWC incorrectly ~~recorded~~ reported offset entries of the billed surcharges for ~~to transfer account balances to~~ its balancing account with a ~~by~~-debiting balance of \$3,477,890 (surcharges of \$2,213,889 for WRAM/MCBA and \$1,264,001 for CARW program) in Account 610-Customer Surcharges, instead of Account 614-Other Water Revenues. As a result, LUPWC misstated the following accounts:

Liberty
Response to UAB Draft Review Report

July 25, 2022
Page 4

Account	Overstated/(Understated)
614 – Other Water Revenues	\$3,477,890
610 – Customer Surcharges	(3,477,890)

- LUPWC incorrectly ~~recorded~~ reported offset entries of the billed surcharges for ~~to transfer account balances to~~ its CARW balancing account with a ~~by~~ ~~crediting~~ balance of \$967,555 to Account 810 – Surcredits, instead of Account 614 – Other Water Revenues. As a result, LUPWC misstated the following accounts:

Account	Overstated/(Understated)
810 – Customer Surcredits	\$(967,555)
614 – Other Water Revenues	(967,555)

UAB proposed, and LUPWC agreed and incorporated, the following adjusting entries to correct the misstatements in its CPUC Annual Report identified above:

Adj Number	Account Number	Description	DR	CR
1	601-1.1	Metered Residential Sales	\$2,213,889	
	601-1.2	Metered Residential Low-Income Discount (Debit)	1,264,001	
	810	Customer Surcredits	967,555	
	614	Other Water Revenues	2,510,335	
	610	Customer Surcharges		\$6,955,780
		<i>To correct CARW customer surcharge, Residential sales, Residential Low-Income discount, and Surcredits account balances at end of the year.</i>		

LUPWC applied these adjusting ~~journal~~ entries to correct its 2020 Annual Report books and submitted a revised 2020 Annual Report to the CPUC on June 22, 2022.

Cause:

LUPWC lacks adequate oversight and an effective review process to ensure that the transactions relating to its balancing accounts are accurately ~~recorded and~~ reported in the Annual report.

Liberty
Response to UAB Draft Review Report

July 25, 2022
Page 5

Effect:

Inaccurate reporting of surcharges and surcredits could potentially impact water rates for LUPWC-Central Basin Division’s ratepayers during LUPWC General Rate Case application review process if they were left uncorrected.

Recommendation:

LUPWC should strengthen its oversight and review process over its accounting and regulatory reporting to ensure that transactions relating to its balancing accounts are accurately ~~recorded and~~ reported in the Annual Report.

Liberty’s Response:

Liberty clarifies regarding the “Effect” statement in the review report. The reporting misstatements are on the CPUC Annual Report only. Revenues, including surcharges and surcredits, are correctly recorded and reflected in Liberty’s financial system, operating statements, and balancing accounts and therefore will not impact ratepayers’ water rates.

Finding 2: Incorrect Reporting of Miscellaneous Clearing Accounts

Condition:

LUPWC incorrectly reported a balance of \$449,170 in Account 9XX-Miscellaneous-Clearing in LUPWC-Central Basin’s 2020 Annual Report originally filed with the CPUC’s Water Division on June 2, 2021. Account 9XX in LUPWC’s Annual Report rolls up the balances from USOA Accounts 902,903, and 906, which are temporary clearing accounts. The balances in these clearing accounts should have been transferred to Account 805-Maintenance of General Plant. As a result, LUPWC overstated Account 9XX-Miscellaneous-Clearings by \$449,170 and understated Account 805-Maintenance of General Plant by the same amount.

UAB proposed, and LUPWC agreed and incorporated, the following adjusting entry to correct the misstatement in its CPUC Annual Report identified above:

Adj. Number	Account Number	Description	DR	CR
2	805	Maintenance of General Plant	\$449,170	
	9XX	Miscellaneous-Clearings		\$449,170
		<i>To reclassify miscellaneous clearings to maintenance expense.</i>		

LUPWC applied this adjusting journal entry to correct its 2020 Annual Report books and submitted a revised 2020 Annual Report to the CPUC on June 22, 2022.

Liberty
Response to UAB Draft Review Report

July 25, 2022
Page 6

Sincerely,

LIBERTY UTILITIES (PARK WATER) CORP.

/s/ Crystal Greene

Crystal Greene
Vice President, Finance
Crystal.Greene@libertyutilities.com

cc:

Masha Vorobyova, UAB, Marsha.Vorobvova@cpuc.ca.gov

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APPENDIX C—UAB’S EVALUATION OF UTILITY’S RESPONSE

We appreciate LUPWC’s comments submitted on July 25, 2022. In its response, LUPWC requested specific edits to certain language in Findings 1 and 2 of UAB’s draft review report, including recharacterization of the Condition of Finding 1 as a reporting error only instead of an accounting recording and reporting error. LUPWC also provided its perspective on the Effect of Finding 1. We re-evaluated the description of the Findings and determined that the Finding 1 accurately described the actual condition and properly characterized the material misstatements as both incorrect recording and reporting because LUPWC’s general ledger incorrectly recorded CARW surcharges and surcredits in the specific accounts as described in Appendix A of this report. Additionally, consistent with its recording in the general ledger, LUPWC incorrectly reported those CARW surcharges and surcredits in its 2020 Annual Report originally filed with the CPUC. Although the ending balance of the CARW balancing accounts is not affected by the adjusting journal entries resulting from this finding, LUPWC originally recorded the CARW surcharges and surcredits in the incorrect general ledger accounts. Similar to Finding 1, we also disagreed with LUPWC’s proposed changes to Finding 2 language because LUPWC needed to adjust both its general ledger and the Annual Report following adjustments identified during our review engagement. Therefore, Findings 1 and 2 remain unchanged.

LUPWC also requested removing the requirement presented in the Other Matter paragraph of the draft review report regarding submitting a revised 2021 Annual Report with the CPUC. We confirmed that LUPWC–Central Basin Division has already filed its revised 2021 Annual Report that reflects the changes presented in this report on June 21, 2022. Therefore, we removed the sentence “LUPWC-Central Basin Division should use the amounts reviewed by the UAB as presented in this report as the basis to file a revised 2021 Annual Report with the CPUC” from the Other Matter paragraph of this report. Other parts of the report remain unchanged.